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June 23, 2014

Minister Kevin Sorenson
Minister of State (Finance)
Department of Finance Canada
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister Sorenson,

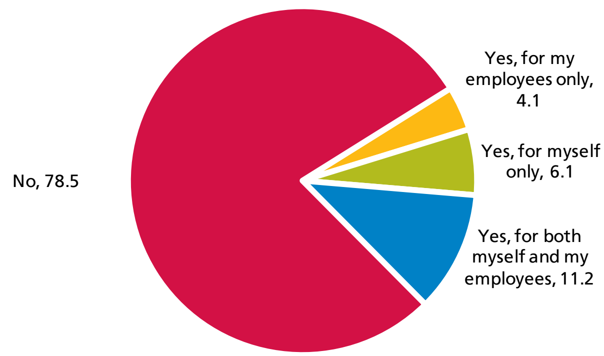
On behalf of the 109,000 independent business owners who are members of the Canadian Federation of Independent Business (CFIB), we are writing to offer feedback on the Target Benefit Plan consultation paper. While the CFIB supports the move to target benefit (or shared risk) pensions for employers and employees of federally-regulated industries and Crown corporations, we also encourage an extension of such a model to include the entire public service.

Canada's public sector and many Crown corporation pension plans are massively underfunded and represent a very heavy strain on the Canadian economy. Small business owners believe pension reform is urgently needed to ensure they do not bear the brunt of unfunded liabilities in the form of government debt and increased taxes down the road. CFIB supports the government's plan to explore a target benefit, defined contribution or a shared risk model of pension plans for federally-regulated industries, Crown corporations and the core public service. New pension options, like the target benefit pension plan, will allow organizations the flexibility to adapt their plans when liabilities become unmanageable and can also bring greater stability to their employees, ensuring that their pensions will not become underfunded.

Small business views on saving for retirement

Saving for retirement is a very real concern for our members. Over three-quarters of small business owners do not have retirement plans in place for themselves or their employees as they simply cannot afford, or find it difficult to access, the various retirement savings options available (Figure 1). While CFIB supports the broad based principles mentioned in the consultation paper—pension sustainability, benefit security, transparency and equity—there is also an important issue of fairness for many small business owners and their employees. Despite contributing to federal public servant pensions through taxes, small-and medium-sized enterprise (SME) owners and their employees would never be able to access as generous a pension, at as early an age, as their counterparts in the federal public sector.

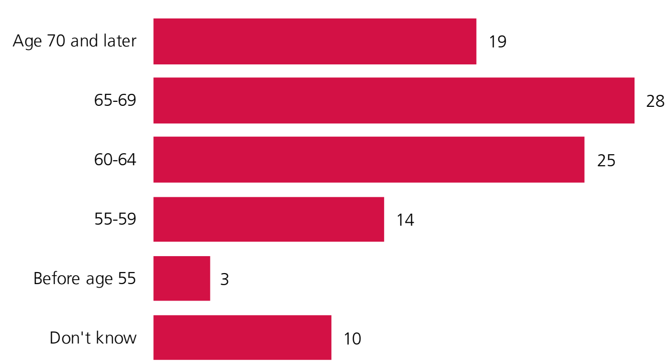
Figure 1:
Does your business currently offer a retirement saving plan, for you and/or your employees (e.g., RRSP, RPP)? (% response)



Source: CFIB, Retirement Income in Canada, March 2011.

Our research shows that while most public sector employees retire around age 60,[1] nearly half of small business owners believe they will only be able to retire after 65 (Figure 2). CFIB applauds the government's recent efforts of increasing the minimum age of retirement for all new federal hires; however, millions of Canadians in the private sector still do not have a workplace pension plan, and even those with an employer-sponsored plan cannot hope to retire nearly as early, nor as comfortably as government employees. Public sector workers benefit from overly generous employer-sponsored plans, early retirement options, and many other benefits that are simply out of reach for a small business owner. Moreover, taking into account wages and benefits, federal, provincial, and municipal government employees are compensated between 25 to 42 per cent above the private sector.[2] That is why CFIB recommends eliminating overly generous incentives for early retirement in the public sector, such as the bridge benefit, which currently only exacerbate the widening gap between retirement options for public sector and private sector workers.

Figure 2:
At what age do you believe you will be able to retire comfortably? (% response)



Source: CFIB, Retirement Income in Canada, March 2011.

[1] Statistics Canada, CANSIM, Table 282-0051, 2010.
[2] CFIB, *A Closer Look at Private–Public Sector Wage Gaps*, November 2013.

Accountability and transparency of public funds

One of the biggest challenges associated with public sector pensions is that most Canadians are largely unaware of the massive strain they represent for all taxpayers. Years of inflated salaries and benefits, and failure to address unsustainable liabilities earlier, have resulted in a $6.5 billion unfunded pension liability at Canada Post alone. In addition to the shortfall at Canada Post, the federal government is faced with unfunded pension liabilities for the core public service amounting to $150 to $240 billion. If changes are not made to reduce these liabilities, they will become future taxes to be paid by small business owners.

There is no reason why small business owners and their employees should have to bear the brunt of irresponsible fiscal management on the part of Crown corporations and government. In order to address this issue and help bring some accountability where it is much needed, CFIB recommends that Canada Post and other Crown corporations and federally regulated industries address their unfunded pension liabilities as soon as possible. A target benefit plan or a shared risk model could help taxpayers not be liable for these future debts.

In addition, in order to properly disclose to Canadians and small business owners their future tax liabilities, the government must ensure full accountability and publicly disclose the financial health of all public sector pension funds by reporting this information using consistent methodology on an annual basis.

Alternative pension models

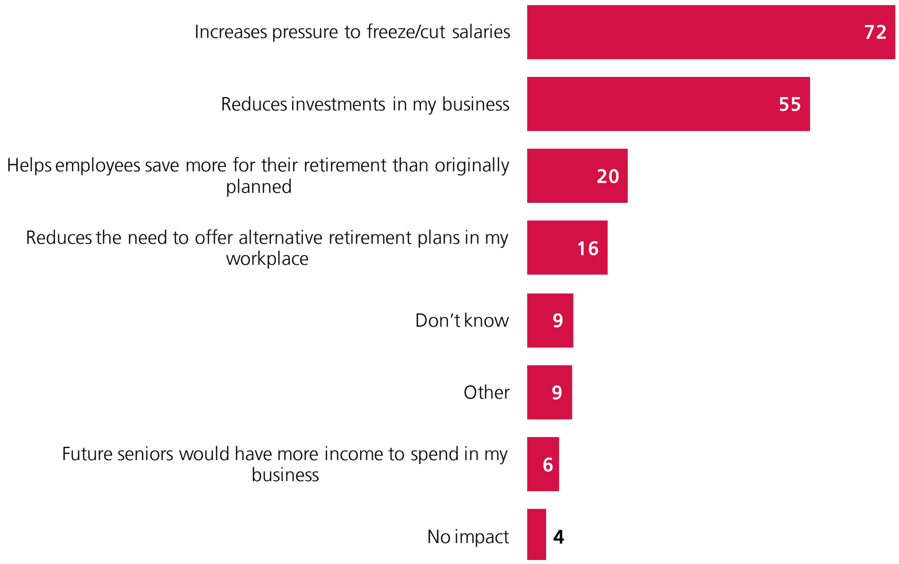
CFIB has surveyed its members on the wide range of proposals made by various governments on retirement savings, pension plans, and alternative savings options. As the government explores new ways to compensate its employees, we ask that it consider proposals previously tested with CFIB members. In order to restore fairness and sustainability to public sector compensation packages, CFIB urges the government to ensure that any new pension plans or retirement savings plans do not place the burden of paying unfunded liabilities on small business owners. Some recent suggestions, such as increasing Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) premiums, and implementing mandatory provincial pension plans, have not been well received by small business owners, while others, like the Pooled Registered Pension Plans (PRPPs), are embraced due to their voluntary, low-cost nature. CFIB will continue to explore retirement options which would help small business owners save more for retirement, without imposing further strain on the Canadian economy through unfunded pension liabilities.

Through our research, small business owners have voiced their significant concerns with the idea of mandatory increases to CPP/QPP premiums. Public opinion polling shows that Canadians have the same concerns. In fact, 45 per cent of Canadians report that mandatory increases to CPP/QPP would reduce their ability to pay for essential goods and services such as food and shelter, and 42 per cent indicate it would reduce their ability to take advantage of other savings vehicles like RRSPs and TFSAs.[3] For business owners, CPP/QPP increases would increase pressure to freeze or cut salaries (72 per cent) and reduce investment in their business (55 per cent) (Figure 3).

[3] CFIB, *How to Save More for Retirement*, December 2013.

Figure 3:

Impact of immediate mandatory increase in CPP/QPP premiums (% response)

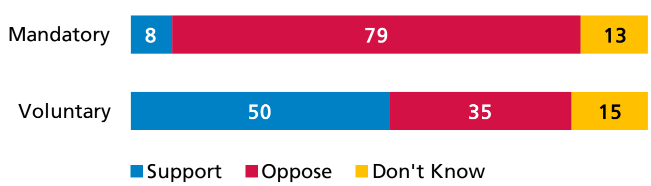


Source: CFIB, How to save more for retirement, December 2013.

Some Canadian provinces, including Ontario, Prince Edward Island, and Manitoba have recently expressed interest in participating in separate, mandatory provincial plans to increase retirement savings in their respective provinces. The Ontario Retirement Pension Plan (ORPP) is currently under consideration with very little support from Ontario's small business community (Figure 4). Any mandatory provincial plan represents additional payroll taxes, which are a disincentive to small business owners wishing to grow their business or hire new employees. The ORPP will represent a very heavy burden for employers and will place entrepreneurs in Ontario at a competitive disadvantage compared to those that do not have to participate in such a plan.

Figure 4:

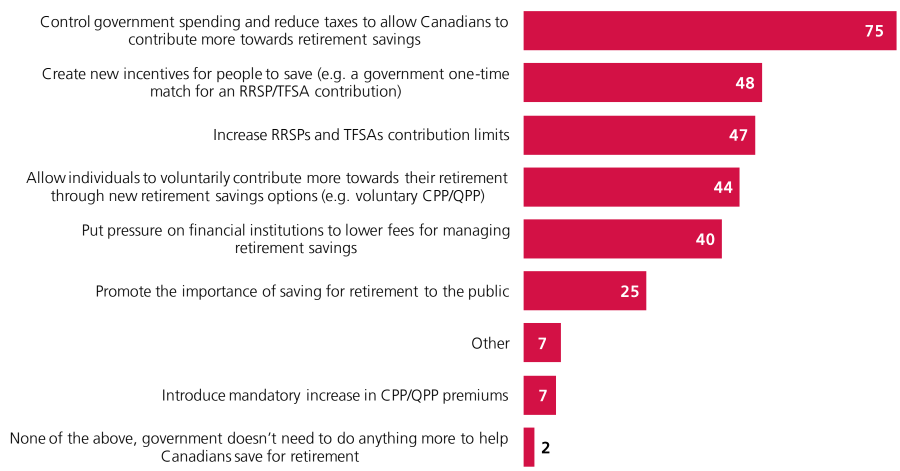
In addition to the current Canada Pension Plan, would you support or oppose a new Ontario pension plan if employer contributions to the Ontario plan were: (% response)



Source: CFIB, Ontario Supplementary Pension Plan, October 2013.

CFIB has been very supportive of implementing a federal framework for a voluntary, low-cost, and easy-to-administer Pooled Registered Pension Plans (PRPPs). Given that PRPP contributions are not subject to payroll taxes, its implementation would help employers, employees and the self-employed to save more for retirement. The federal government has shown leadership on this issue by adopting the *Pooled Registered Pension Plans Act* and we are encouraging those provincial counterparts who have not yet adopted the necessary legislation, to do so. Controlling government spending and reducing taxes to allow Canadians to contribute more to their own retirement savings were also other ways small business owners say government could help them save more for retirement (Figure 5).

Figure 5:
What are the best ways for government to help Canadians save for retirement?
(Select a maximum of three answers, % response)



Source: CFIB, How to save more for retirement, December 2013.

Advantages of a Target Benefit Pension Plan

With the private sector moving quickly away from traditional defined benefit pension plans due to increased costs and associated risks, a shared risk model much like the proposed target benefit plan will be a much more sustainable option for Canada's retirees. A target benefit plan is a welcome middle ground between defined benefit pension models, favored by public sector employees, and defined contribution plans, which are a more affordable and flexible option for small business owners. With the massive outflow of workers into retirement in the next several years and the increase in life expectancy, it is time to reconsider retirement options for the entire public service, and not limit new proposals to federally-regulated industries and Crown corporations alone.

CFIB supports pension options like the target benefit plan as they allow for greater flexibility to adapt benefits when investment returns vary. This differs from the defined benefit approach still broadly used in the public sector, in which fluctuations in investment returns regularly cause sizable funding shortfalls. As previously mentioned, these plans also represent massive unfunded liabilities for all Canadians, including and especially those who do not have a defined benefit pension themselves but contribute to public sector pensions through their taxes. The target benefit approach not only brings greater financial certainty for employers and taxpayers, it also offers increased stability for employees, who know that their pensions will continue to be fully funded.

New Brunswick was the first jurisdiction in North America to develop a type of target benefit plan, known there as a shared risk pension plan, a decision encouraged by CFIB and small business owners in that province. We strongly believe the move to target benefit or defined contribution plans is a step in the right direction towards ensuring sustainable and transparent pension options for employees of federally-regulated industries, Crown corporations and the entire public service. Removing some of the risk of having to pay for future pension liabilities from taxpayers is crucial and we encourage the government to support and adopt this proposal. The proposed changes will lead to fairer and more sustainable pensions and result in massive savings for the government, reduce future liabilities, and minimize the overall associated risk.

Conclusions and recommendations

We are pleased to see that the government is acknowledging that defined benefit pension plans are unsustainable and change is urgently needed. A target benefit plan would be a step forward to bringing sustainability to Canada's pension landscape. Going forward, all employees in federally-regulated industries, Crown corporations and the public service should have their pensions converted to target benefit or shared risk models. It is necessary to implement low cost pension alternatives that will not leave future generations with massively unfunded pension liabilities. These are all necessary steps in ensuring a balance between the taxes paid by taxpayers and the benefits received from these taxes that accrue to public sector workers.

To reiterate, our key recommendations include:

- Fully disclose all public sector pension liabilities with consistent methodology on a yearly basis;
- Reduced benefits for public sector pension plans and convert defined benefit plans to defined contribution or target benefit plans for federally-regulated industries, Crown corporations and the entire public service;
- Do not increase CPP/QPP premiums and oppose any plans to implement mandatory provincial pension plans (i.e. proposed ORPP);
- Remove overly generous incentives for early retirement (i.e. the bridge benefit); and,
- Bring public sector wages and benefits more in line with their private-sector counterparts;

We thank you for the opportunity to provide feedback on the target benefit pension plan and hope that our comments will be helpful in developing a more sustainable pension model going forward. For additional details on the contents of this letter, or more information on any of the related work CFIB has done on pensions, please do not hesitate to contact us at our Ottawa office at 613-235-2373.

Sincerely,

(*Original signed by*)

Corinne Pohlmann
Senior Vice-President, National Affairs

(*Original signed by*)

Monique Moreau
Director, National Affairs